No. 396

MAY 28 1951

In The

Supreme Court of the United States

October Term, 1950

PARK-IN THEATRES, INC., *petitioner*,

v.

PARAMOUNT-RICHARDS THEATRES, INC., PARAMOUNT-RICHARDS ENTERPRISES, INC., KENSINGTON-RICHARDS ENTERPRISES, INC., RICHARDS EDELEN ENTERPRISES, INC., SARNOFF THEATRES, INC., CAPITOL THEATRES, INC., UNITED THEATRES, INC., *respondents*.

BRIEF FOR RESPONDENTS IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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PARAMOUNT-RICHARDS THEATRES, INC., PARAMOUNT-RICHARDS ENTERPRISES, INC., KENNINGTON-RICHARDS ENTERPRISES, INC., RICHARDS EHRLICH ENTERPRISE, INC., SAENGER THEATRES, INC., CAPITOL THEATRES, INC., UNITED THEATRES, INC., *respondents.*

BRIEF FOR RESPONDENTS IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

OPINIONS BELOW.

The per curiam Opinion of the Court of Appeals for the Third Circuit is reported at 185 F. 2d 407 (Rec. p. 198).

The two Opinions of the District Court on the merits of the defense of "patent-misuse" at bar are reported at 81 F. Supp. 466 and 90 F. Supp. 730 (Rec. pp. 11 to 27 and 97 to 109).

The Opinion of the District Court barring petitioner from examining respondents' officers under Rule 26 on the matter of the "patent-misuse" charged in Respondent's Motions is reported at 7 F.R.D. 723 (not included in Record).

The Opinion of the District Court confirming Petitioner's right to file its Amended Complaint under Rule 15-a without leave of court is reported at 9 F.R.D. 267 (not included in Record).

JURISDICTION.

Jurisdiction of this Court is invoked under Title 28 U.S.C. Sec. 1254(1), and is alleged to be sustained by Supreme Court Rule 38, Sec. 5(b).

NO VALID BASIS FOR GRANTING PETITION FOR WRIT OF CERTIORARI.

The patent involved, No. 1,909,537 for Drive-In Theater, which expired May 16, 1950, was held invalid in the case of *Park-In Theatres, Inc.*, v. *Loew's Drive-In Theatres, Inc.* (C.C.A. 1) 174 F. (2d) 547 (cert. denied 338 U. S. 822, 94 L. Ed. 499 and rehearing denied 338 U. S. 896, 94 L. Ed. 551).

The questions presented by this petition, therefore, do not affect "a substantial proportion of an entire drive-in industry which has come into being and has grown to tremendous size based on and engaged in the commercial exploitation of the invention of the licensed patent" (Pet. for Cert. p. 14). Except for the legal consequences to the parties to this suit, the matter is of no importance. As to the industry as a whole, the patent has now expired and its practice is open to the public at large.

The decisions heretofore rendered in this case reported at 81 F. Supp. 466; 90 F. Supp. 730; 185 F. 2d 407, were given after mature consideration, and present no novel question of law. They follow the well established principles affecting patent misuse as determined by this Court and the Court of Appeals for the Third, Seventh and Ninth Circuits.[1]

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[1] *National Lockwasher Co.* v. *Geo. K. Garrett Co.*, (C.C.A. 3) 137 F. 2d 255; *McCullough* v. *Kammerer Corp.* (C.C.A. 9) 166 F. 2d 759; *United States* v. *Line Material Co.*, 333 U. S. 287, 92 L. Ed. 746; *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 86 L. Ed. 363; *International Business Machines*

There is no conflict in decision with another Court of Appeals nor is the decision in this case in conflict with applicable decisions of this Court.

PETITIONER'S BRIEF.

Petitioner[2], after stating certain well known requirements for Writ of Certiorari, fails completely to meet such requirements and proceeds to reargue the case on the merits, advancing the same arguments which were fully considered by both the District and Circuit Courts. The facts of this case are simple and, when divested of confusion, present no unusual circumstances justifying review by this Court.

STATEMENT.

Plaintiff filed its Bill of Complaint asking for an accounting of royalties alleged to be due under a patent license agreement (Pl. Ex. 3 and 3A, Rec. pp. 69a-82a). As an alternative cause of action the complaint alleged patent infringement to the extent that the acts of the Defendant were not under the license agreement. Paragraph 3 of the license agreement (Pl. Ex. 3A) provided: (R. p. 76a)

> "Licensee covenants and agrees that it will not, either directly or indirectly promote or aid the making, construction, use or operation of any drive-in theatre not licensed by licensor."

This is essentially an action based on the contract. If the above quoted provision of the agreement constitutes an attempt to expand the patent grant, as is urged by Defendants, then the contract on which the action is based is unenforceable and the action for accounting must fail.

Corp. v. *United States of America*, 298 U. S. 131, 80 L. Ed. 1086; *Mercoid* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 88 L. Ed. 376; *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402, 91 L. Ed. 380; *International Salt Co.* v. *United States*, 332 U. S. 392, 92 L. Ed. 20; *B. B. Chemical Co.* v. *Ellis*, 314 U S. 495, 86 L. Ed. 367; *Associated Press* v. *United States*, 326 U. S. 1, 65 S. Ct. 1416, 89 L. Ed. 2013; *American Tobacco Co. et al* v. *United States*, 328 U. S. 781, 66 S. Ct. 1125, 90 L. Ed. 1575).

[2]For convenience, Petitioner is hereinafter referred to as Plaintiff, and Respondents are referred to as Defendants.

The Defendants filed a motion to dismiss the action for accounting under the contract, alleging that the inclusion of paragraph 3 in the license agreement constituted an act on the part of the Plaintiff which was an unlawful attempt to extend the scope of the patent grant in that it precluded the licensee from either directly or indirectly promoting, aiding, making, constructing, using or operating drive-in theatres which were outside of the grant of the patent.

Plaintiff would have this Court believe that the license contemplated only the establishment of straw corporations and proceeds to base its argument on this assumption. The instrument in fact purports to grant an exclusive territory to the licensee, and authorizes the licensee to assign, transfer, let, lease or sell the agreement to any person, persons, firms, corporation, association or group of persons or partnerships and grant them the same right to assign, transfer, let, lease or sell the agreement (par. 9a, Pl. Ex. 3, Rec. p. 73a). Plaintiff's statement that it is the universal practice of the industry to form "straw corporations" for each theatre appears to be unimportant in view of the agreement between the parties which expressly provided for assignment, and transfer, of the exclusive territory or rights thereunder to any person, persons, firms, corporations, association or group of persons or partnerships.

The District Court found: (R. p. 25a)

> "* * * Par. 3 constitutes an unwarranted attempt to extend the Plaintiff's patent monopoly. It would preclude the Defendant-licensee from being connected in any way with a theatre competing with one covered by the Plaintiff's patent, and this is a suppression of competition which is injurious to the public interest under our system of free competition" (Rec. p. 25a).

The Court deferred dismissal until subsequent proceedings might show the existence of drive-in theatres outside of the scope of the patent claims which would be affected by Par. 3 of the license agreement, Pl. Ex. 3A. The De-

fendants then filed a motion for summary judgment accompanied by affidavits (Rec. pp. 28a-39a, 141-180) showing the existence of drive-in theatres of the type which Plaintiff had admitted did not come within the scope of its patents (Rec. 120-121). The Court found that the Plaintiff had violated patent public policy and entered a summary judgment (see opinion at 90 F. Supp. 730; Rec. p. 97a).

In connection with the Motion for Summary Judgment, Plaintiff contends it was denied the right to examine Defendant's officers. This is incorrect in that Plaintiff failed to press for its Motion to Take Depositions.

Plaintiff appealed the judgment of the District Court to the Court of Appeals for the Third Circuit where the case was fully argued by counsel and maturely considered by the Court. The Court of Appeals affirmed the District Court's opinion *per curiam* (Rec. p. 198, 185 F. 2d 407) and denied re-argument.

QUESTIONS PRESENTED.

1. In a suit for an accounting under a patent license agreement where the license agreement contains provisions which clearly expand the grant of the patent, is the burden on Defendants to show that the license agreement has been used to actually suppress competition or is the act of including the provision and its continued presence in the agreement sufficient to justify summary action by the Court?

2. Where the license agreement on which the action is based contains clear unambiguous language expanding the grant of the patent, is it within the discretion of the Court to grant a Motion for Summary Judgment?

3. Does the fact that a patent license agreement is directed to an exclusive limited territory justify the inclusion of language which would otherwise violate patent public policy?

ARGUMENT.

Point I. Where a Patent License Agreement Contains Clear Unambiguous Language Expanding the Grant of the Patent, Defendant in Suit for Accounting Under License Agreement Need Only Show the Existence of Such Language in the Contract to Justify Summary Action by the Court.

The dominant question before the Court is simply whether a patent license agreement containing provisions which attempt to expand the grant of the patent can be enforced in view of patent public policy. Defendants contend that the inclusion of such a provision in a patent license agreement is against public policy and is such an act of patent misuse as to render the agreement unenforceable so long as such misuse persists.

The philosophy of the patent misuse doctrine is set out in the case *U. S.* v. *Line Material Co.*, 333 U. S. 287, 68 S. Ct. 550, 92 L. Ed. 701 (1948), where, at page 316, the Court said:

> "The Constitution grants Congress the power 'To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.' Art. 1, Sec. 8, cl. 8. It is to be noted first that all that is secured to inventors is 'the exclusive right' to their inventions; and second that the reward to inventors is wholly secondary, the aim and purpose of patent statutes being limited by the Constitution to the promotion of the progress of science and useful arts. *United States* v. *Masonite Corp.*, 316 U. S. 265, 278, 86 L. Ed. 1461, 1475, 62 S. Ct. 1970 and cases cited.
>
> "Congress, faithful to that standard has granted patentees only the 'exclusive right to make, use and vend the invention or discovery.' Rev. Stat. Sec. 4884 35 USCA Sec. 40, 9 FCA title 35, Sec. 40. And as early as 1852 the Court, speaking through Chief Justice Taney, defined the narrow and limited monopoly granted under the statutes as follows: 'The franchise which the patent grants, consists altogether in the

right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee.' *Bloomer* v. *McQuewan*, 14 How. (US) 539, 549, 14 L. Ed. 532, 537. But the ingenuity of man has conceived many ways to graft attractive private prerequisites onto patents. The effort through the years has been to expand the narrow monopoly of the patent. The Court, however, has generally been faithful to the standard of the Constitution, has recognized that the public interest comes first and reward to inventors second, and has refused to let the self-interest of patentees come into the ascendancy. As we stated in *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495, 498, 86 L. Ed. 367, 370, 62 S. Ct. 406. 'The patent monopoly is not enlarged by reason of the fact that it would be more convenient to the patentee to have it so, or because he cannot avail himself of its benefits within the limit of the grant.'

"From *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502, 61 L. Ed. 871, 37 S. Ct. 416, LRA 1917 E. 1187, Ann. Cas. 1918A 959, which overruled *Henry* v. *A. B. Dick Co.*, 224 U. S. 1, 56 L. Ed. 645, 32 S. Ct. 364, Ann. Cas. 1913 D 880, to *International Salt Co.* v. *United States*, 332 U. S. 392, ante, 55, 68 S. Ct. 12, decided only the other day, the Court has quite consistently refused to allow the Patentee's 'right to exclude' to be expanded into a right to license the patent on such conditions as the patentee might choose. For the power to attach conditions would enable the patentee to enlarge his monopoly by contract and evade the requirements of the general law applicable to all property. The philosophy of those decisions was summed up in *Mercoid Corp.* v. *Mid-Continent Invest. Co.*, 320 U. S. 661, 666, 88 L. Ed. 376, 381, 64 S. Ct. 268, where we said:

" 'The necessities or convenience of the patentee do not justify any use of the monopoly of the patent to create another monopoly. The fact that the patentee has the power to refuse a license does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use * * * The patent is a privilege. But it is a privilege which is conditioned by a public purpose. It results from invention and is limited to the invention which it defines. When the patentee ties something else to

> his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limitations upon that right which the general law imposes upon such contracts.' "

Morton Salt Co. v. *G. S. Suppiger Co.* 314 U. S. 488, 62 S. Ct. 402, 86 L. Ed. 363 was relied upon in the *Line Material* case. There, the Supreme Court observed that a marked distinction is preserved between patent misuse cases involving attempts to contravene public policy by expanding the patent grant, and restraint of trade cases under the anti-trust laws. The Court stated: (p. 490, 492)

> "The question we must decide is not necessarily whether respondent has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article."
>
> . . . . . .
>
> "The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adopted by the Constitution and Laws of the United States 'to promote the Progress of Science and Useful Arts, by securing for limited Times to * * * Inventors the exclusive Right * * *' to their 'new and useful' inventions. United States Constitution, Art. I, Sec. 8, cl. 8, 35 U.S.C.A. Sec. 31. But the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant."

Referring to the line of decisions of the Supreme Court denying relief to patentees who abused their rights acquired under patents[6], the Court of Appeals for the Third

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[6] *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 1917, 243 U. S. 502, 37 S. Ct. 416, 61 L. Ed. 871, L.R.A. 1917E, 1197, Ann. Cas. 1918A, 959;

Carbice Corporation of America v. *American Patents Development Corporation*, 1931, 283 U. S. 27, 51 S. Ct. 334, 75 L. Ed. 819;

Circuit in *National Lockwasher Co. v. George K. Garrett Co.*, 137 F. (2d) 255 (1943), recognized that the Supreme Court had made it abundantly clear that a patentee could not use his patent monopoly to force upon customers his brand of a non-patented article to be used by the customer in connection with the patented article sold or leased, these being generally termed "tie-in" provisions.

The Court in that case was faced with a patent license agreement between plaintiff-patentee and a third party which contained almost the identical language found in the license agreement identified as Plaintiff's Exhibit 3-B (R. p. 78a) in the present suit. That Court considered that the rationale of the patent misuse decisions referred to clearly condemned any scheme by which a patentee attempted to expand his patent grant, and held that the mere presence of a restrictive provision in the patent license agreement which confined licensee's activities beyond the precise monopoly covered by the patent grant disentitled the patentee to any relief in a Court of equity. Judge Goodrich wrote (p. 258):

> "* * * We think the instant case, on the facts as the defendant represents them, falls within the principle of the cases cited to the extent that the patentee is using the lawful monopoly granted by the patent as a means of suppressing the manufacture and sale of competing unpatented articles. It is not creating for itself a monopoly for unpatented goods, as in some of the cases cited. But it is attempting by means other than that of free competition to extend the

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International Business Machines Corp. v. U. S., 1936, 298 U. S. 131, 56 S. Ct. 701, 80 L. Ed. 1085;

Leitch Mfg. Co. v. Barber Co., 1932, 302 U. S. 458, 58 S. Ct. 305, 82 L. Ed. 371;

International Circuit, Inc. v. U. S., 1933, 308 U. S. 208, 59 S. Ct. 340, 83 L. Ed. 610;

Blind Gamblers Corp. v. U. S., 1935, 309 U. S. 438, 60 S. Ct. 618, 84 L. Ed. 852;

Morton Salt Co. v. G. S. Suppiger Co., 1942, 314 U. S. 488, 62 S. Ct. 402, 86 L. Ed. 363;

B. B. Chemical Co. v. Ellis, 1942, 314 U. S. 495, 62 S. Ct. 402, 86 L. Ed. 367;

U. S. v. United Shoe Co., Inc., 1942, 318 U. S. 241, 63 S. Ct. 1000, 87 L. Ed. 1345;

U. S. v. Masonite Corp., 1942, 316 U. S. 265, 62 S. Ct. 1070, 86 L. Ed. 1461

> bounds of its lawful monopoly to make, use and vend the patented device to the extent where such device would be the only one available to a user of such an article. This monopoly is obviously not covered by the patent. A patentee's right does not extend to the use of the patent to purge the market of competing non-patented goods except, of course, through the process of fair competition."

There was no evidence in that case that the patentee ever attempted to enforce the restrictive clause. It appeared only that similar licenses had been granted by the plaintiff-patentee. That Court decided that the presence of such a provision in a patent license agreement, where it precluded licensee by its terms from dealing in non-patented articles of the same class as the patented articles, was sufficient to sustain the defense of patent misuse, the Court stating at page 257:

> "* * * There was no dispute that this provision appeared in the licensing agreements given by the plaintiff to those who sought to make spring washers utilizing the plaintiff's patent.
>
> "We think this is enough: enough to show that the plaintiff was using its patent to suppress competition with it by non-patented articles. To the extent that the policy was successful the supply of competing non-patented washers would, of course, disappear."

The pertinency of the *Lockwasher* case cannot be successfully challenged. A reading of the restrictive provisions in the contract there under consideration and paragraph 3 of the present license agreement leaves no doubt on this score. The *Lockwasher* case is the present law, Petition for Certiorari having been denied, 305 U. S. 649, 59 S. Ct. 243, 83 L. Ed. 420.

The pertinency of the *Lockwasher* case is evident from the following comparison of the objectionable clause in that case with paragraph 3 of Exhibit 3a (R. p. 76a) in the case at bar:

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Park-In Agreement	*Lockwasher Case*
Licensee covenants and agrees that	Licensee agrees that
(Supplied by implication)	while this agreement is in force
it will not either directly or indirectly promote or aid the making, construction, use or operation	it will make and sell no form
of any Drive-In Theatre	of non-entangling Spring Washers,
not licensed by Licensor	except such as are covered by said patent,
(immaterial)	and that it will not, either directly or indirectly, make or sell Spring Washers of the kind specifically excluded from this license under the provisions of Paragraph First (a) hereof.

A later case decided by the Court of Appeals for the Ninth Circuit, *McCullough* v. *Kammerer Corp.*, 166 F. 2d 759 (1948), likewise has applied the doctrine of patent misuse as extending to restrictions by way of patent license agreements protecting the licensor from competition in unpatented articles or devices. The facts of this case present an even closer parallel to the present case than obtained in the *Lockwasher* decision. In the *McCullough* case, the license agreement in suit was an *exclusive* license but related primarily to manufacture and *use* by the licensee but *not to sale* of manufactured articles. As the Court of Appeals for the Ninth Circuit stated, through Judge Denman (p. 760):

> "The contract not only gave the licensee an exclusive license to manufacture and use (but not to sell) the pipe cutter in the U. S. and its territories, but

prevented both the licensee and licensor from acquiring or using any other pipe cutter".

This situation, therefore, is one where the licensee is prevented by agreement from making and *using* any article or device other than that covered by the licensed patent, as in the case at bar. Defendants are restricted by the license agreement in suit from making and *using* any drive-in theatre other than those covered by Plaintiff's patent.

Plaintiff's statement, that the case at bar raises a novel point of law because no decision finding patent misuse in license restrictions, has heretofore been rendered on other than restrictions against manufacture and *sale* of competing articles, is clearly in error.

The defendant in the *McCullough* case contended that the restrictive provision prevented free competition and consequently the contract was unenforceable. The lower Court overruled this contention and granted an interlocutory decree for an injunction and damages. On appeal, a majority of the Court reversed, stating (p. 761):

> "In this situation the contention is entirely irrelevant that neither party was harmed by the agreement. The question is, 'Was the public harmed?' We think the district court erred in holding it was not and are in accord with the Third Circuit that these restrictions are against the public interest and warrant a court of equity in refusing the relief here sought.
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> * * * * * * * *
>
> "We agree with that circuit (the third, in the Lockwasher case) that there is no difference in principle between extending the monopoly of the patent by suppressing the manufacture or use of competitive devices, patented or unpatented, and the extension of the monopoly by prohibiting the use in making the patented articles of unpatented articles competing with those made by the licensor's subsidiary, held against the public interest in *Morton Salt Co.* v. *Suppiger Co.* * * * (Insert supplied)

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This principle that protection from competition by contract in connection with patented devices, however sought, will deprive the patentee of relief is very aptly stated by Judge Denman as follows: (p. 762)

> "The public, in a system of free competition, is entitled to have the competition of other devices with a patented device and here it is against the public's interest to use the patent to suppress such competition. As stated by the Supreme Court in the recent case of *Transparent-Wrap Machine Co.* v. *Stokes & Smith Co.*, 329 U. S. 637, 644, 67 S. Ct. 610, 614: 'Protection from competition in the sale of unpatented materials is not granted by either the patent law or the general law. He who uses his patent to obtain protection from competition in the sale of unpatented materials extends by contract his patent monopoly to articles as respects which the law sanctions neither monopolies nor restraints of trade."

Again, the similarity between the restrictive provisions of the *McCullough* case and the one *sub judice* is most striking:

Park-In Agreement	*Kammerer Agreement*
Licensee covenants and agrees that	The licensee covenants and agrees
(Supplied by implication)	during the term of this license agreement
it will not, either directly or indirectly, promote or aid the making, construction, use of operation	not to manufacture or use or rent
of any Drive-In Theatre not licensed by Licensor	any device which will be in competition with the device or devices covered by this license agreement

Writ of certiorari was also sought in the *McCullough* case, which was denied by the Supreme Court on October

11, 1948, reported at 335 U. S. 813, 69 S. Ct. 30, 93 L. Ed. 368.

The mere act of entering into a contract containing a repugnant provision such as paragraph 3 of Plaintiff's Exhibit 3A has been considered by the Supreme Court to meet all the requirements of an affirmative act constituting suppression of competition. As stated by that Court in one of the earlier cases on patent misuse, *United Shoe Machinery Corp.* v. *U. S.*, 258 U. S. 451, 458, 42 S. Ct. 363, 365, 66 L. Ed. 708 (1922):

> "This system of 'tying' restrictions is quite as effective as express covenants could be and practically compels the use of the machinery of the lessor except upon risks which manufacturers will not willingly incur. *It is true that the record discloses that, in many instances, these provisions were not enforced.* In some cases they were. In frequent instances it was sufficient to call the attention of the lessee to the fact that they were contained in the lease to insure a compliance with their provisions. *The power to enforce them is omnipresent, and their restraining influence constantly operates* upon competitors and lessees. The fact that the lessor, in many instances, forbore to enforce these provisions, does not make them any less agreements within the condemnation of the Clayton Act." (Emphasis supplied.)

The same reasoning was applied in the case *American Tobacco Co. et al* v. *U. S.*, 328 U. S. 781, 66 S. Ct. 1125, 90 L. Ed. 1575 (1946), where the Court held that a violation may be present although such restraint or monopoly may not have been attempted to any harmful extent.

This doctrine was likewise reemphasied by the Supreme Court in the more recent case *Transparent-Wrap Machine Co.* v. *Stokes and Smith Co.*, 329 U. S. 637, 91 L. Ed. 563 (1946), wherein the Court stated on page 641:

> "Though control of the unpatented article or device falls short of a prohibited restraint of trade or monopoly, it will not be sanctioned. Morton Salt Co. v. G. S. Suppiger Co. * * * *For it is the tendency in that direc-*

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tion which condemns the practice and which, if approved by a court either through enjoining infringement or enforcing the covenant would receive a powerful impetus." (Emphasis supplied.)

See also the recent case *International Salt Company* v. *U. S.*, 332 U. S. 392, 68 S. Ct. 12, 92 L. Ed. 20 (1947).

As a matter of fact, the Court of Appeals for the Seventh Circuit has held in *Chicago Metallic Mfg. Co.* v. *Edward Katzinger Co.*, 139 F. 2d 291 (1943), later affirmed by the Supreme Court, reported at 329 U. S. 394, 67 S. Ct. 416, 91 L. Ed. 374, that the fact that patentee-licensor was not even in favor of the restrictive provision, the provision having been included in the agreement at the suggestion of the licensee, and that licensor's rights under the provision were never asserted, did not remove the impediment to enforceability of the license agreement or the patent. The Court stated at page 293:

> "The license agreement, Paragraph 11 * * * did provide for a clear price-fixing arrangement. The appellee will not be heard to say that it really was not in favor of the provisions as to price fixing, contained in a written agreement which it had signed, or that it did not practice price fixing. The important thing is that the appellee had provided by contract for the right to fix prices. The agreement was plain and unambiguous. It is not claimed otherwise."

No Conflict with the Hazeltine Case.

Plaintiff urges that the decision of the Court of Appeals for the Third Circuit in the case at bar, is in conflict with the recent decision of the Supreme Court in *Automatic Radio Manufacturing Co.* v. *Hazeltine Research*, 339 U. S. 827, 70 S. Ct. 894, 94 L. Ed. 1312 (1950). The Supreme Court in the *Haeltine* decision was simply concerned with the question of whether royalties were determined on a reasonable basis and whether a limitation on licensee to manufacture only for home use was patent misuse.

That case is readily distinguishable from the one now before this Court and is so expressly recognized in the

decision. In that case, the Supreme Court expressly distinguished it from the "Tie-in" cases condemning schemes requiring the purchase of unpatented goods for use with patented apparatus or processes, prohibiting production or sale of competing goods, or conditioning the grant of the license under one patent upon the acceptance of another and different license, specifically citing the National Lockwasher decision as an example of the second class of cases. The Court held that a restriction limiting manufacture of the patented article to "home" use was not a prohibition against licensee's manufacturing or selling of other apparatus, and therefore was not patent misuse.

In the present case, as in the Lockwasher case, the restrictive provision of the license prohibited licensee from constructing, using, or being associated with any devices other than the patented devices.

It is submitted, therefore, that the decision of the Court of Appeals for the Third Circuit in the case at bar in no way represents a conflict with the decision of the Supreme Court in the *Automatic Radio* v. *Hazeltine* decision.

No Conflict with the DeBothezat Decision.

Petitioner has also alleged that the decision of the Court of Appeals for the Third Circuit in the instant suit, insofar as it affirms the Delaware District Court's decision, raises a conflict with the decision of the Court of Appeals for the Second Circuit in *American Machine and Metals, Inc.* v. *DeBothezat Impeller Co.*, 180 F. 2d 342 (1949); Cert. Den. 339 U. S. 979, 70 S. Ct. 1025, 94 L. Ed. 1383

In the *DeBothezat* case the allegedly restrictive provision occurred in a contract for lease or sale of a business and provided that the lessee would not engage in the manufacture and sale of products in competition with the products to be manufactured and sold under that agreement, the patents conveyed being merely incidental to the conveyance of a going business.

The *National Lockwasher* decision was expressly distinguished in that decision at page 347, the Court stating

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that in the DeBothezat case "something more than a license agreement is involved".

What the Court clearly meant by that statement was that the limiting restriction not to compete imposed in a contract for sale or lease of a business was not an unlawful restraint of trade. It is submitted that this in no way can be construed as supporting Petitioner's position that a covenant not to engage in competing activities in connection with a *patent license agreement* does not constitute such a patent misuse as to disentitle patentee licensor from recovery under the agreement.

Plaintiff seeks review of the case at bar in view of decision of the Rhode Island District Court in *Park-In Theatres, Inc.* v. *Loew's Drive-In Theatres, Inc.*, 70 F. Supp. 880, in which the patent in suit was held to be invalid on appeal. (supra, p. 1) The defense raised against patent misuse in the *Loew's* case was not based on alleged violation of patent public policy but on an alleged violation of the Sherman and Clayton Acts, a situation which does not exist in the present case.

Point II. A Court in Its Discretion May Grant a Motion for Summary Judgment Denying Relief Under a Patent License Agreement, Where the License Agreement Contains Clear, Unambiguous Language Expanding the Grant of the Patent.

The philosophy of patent misuse is as simple as this: The inventor is entitled to the invention that is defined by his claim. Because monopolies are repugnant to public policy, the patentee cannot extend the grant which has been given him by virtue of the patent. Any attempt to condition the use of the invention so as to restrict licensee's activities with respect to the manufacture, sale or use of materials or devices that broadens the grant under the patent is against public policy.

It is abundantly clear from the decisions discussed in the foregoing section that the question for determination in cases involving such an attempt by way of patent license agreements to extend the scope of a patent monopoly is not

one of actual restraint of trade or competition but is whether the patentee has attempted, by contract, to extend the scope of his exclusive monopoly to cover activities which are in no way included in the specific patent monopoly granted to him. In the case at bar, this attempt takes the form of a covenant protecting the licensor against competition by unpatented articles or devices. The Supreme Court has repeatedly emphasized that the act of including such a provision in an executed patent license agreement or contract is a sufficient overstepping of the carefully guarded bounds of a legal patent monopoly to disentitle him to assertion of that patent monopoly or enforcement of the contract, until the effect of the repugnant condition is dissipated.

In the *Morton Salt* case, supra, the Supreme Court affirmed the District Court's grant of a motion for summary judgment denying plaintiff-licensor any relief under the contract or enforcement of his patent rights until such misuse had been dissipated. Where the contract in suit contains a provision which expands the scope of the patent grant, summary disposition of suits based thereon without proceeding to trial on the merits is clearly approved.

Summary judgment in a suit based on a lease of patented machines which restricted lessees to the use of patentee's salt products was approved by the Supreme Court in *International Salt Co.* v. *U. S.* (supra); and in *Associated Press* v. *U. S.* (supra) where the existence of an executed contract containing a provision which may have the effect of suppressing potential competition was considered sufficient without regard to affirmative assertion of rights thereunder.

Plaintiff has asserted that a recent decision of the Court of Appeals for the Fifth Circuit, in the case of *Gray Tool Co.* v. *Humble Oil & Refining Co.*, 186 F. 2d 365 (1951) raises a conflict with the decision of the Court of Appeals of the Third Circuit in the case at bar. Petition for Writ of Cert. in the *Gray* case is now pending before the Supreme Court.

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The *Gray* case was a suit for patent infringement, which was dismissed in the District Court on motion for summary judgment on the grounds that plaintiff-patentee was attempting by a course of conduct (and not by agreement) to use the patents in suit to establish a monopoly on material not covered by the patents. It was contended that plaintiff was by its course of conduct using its patents to prevent other manufacturers of like standard material from selling it to defendant and others. The Court of Appeals reversed and remanded for trial, stating at page 367: "Nothing in the pleadings, in the evidence given, or in the admissions made by plaintiff establish as a matter of law that it was misusing its patents in an attempt to obtain a monopoly in violation of the applicable rule."

The Court of Appeals, however, expressly distinguished that case requiring determination of fact issues as to course of conduct from those such as the case at bar, where the suit is based on a written license which admittedly contains limiting provisions constituting as a matter of law attempts to expand the scope of the patent grant, and impliedly recognized the doctrine as set forth in this case and the *Lockwasher* case. The Court stated at page 368:

> "It is true that two of the cases defendant cites were disposed of on summary judgment. In one of them, however, *Morton Salt Co.* v. *G. S. Suppiger Co.*, * * * the question was settled as matter of law against plaintiff by the terms of a written license with limiting provisions violating 'the established rule that a patentee who has granted a license on condition that the patented invention be used by the licensee only with unpatented materials furnished by the licensor,' comes into court with unclean hands."

The Court further recognized the distinction between the case where a contract sued upon contains the restrictive provision and that where the activities of the plaintiff-patentee are alleged to constitute a restraint of trade, stated at page 369:

> "What the issue here comes down to is this, that in each case where the misuse of patent principle has been

applied, it has been of the essence of its application that whatever it takes in law to constitute the misuse be established as a matter of law where the procedure was by summary judgment, or as a matter of fact where it is by trial."

From this, it is apparent that the Court of Appeals for the Fifth Circuit recognied that the inclusion in an executed license agreement of limiting provisions setting out an act to expand the grant of a patent constituted as a matter of law a violation of public policy and a summary judgment is proper. It is apparent that there is no conflict in the circuits in respect to the propriety of a summary judgment.

Point III. The Fact That a Patent License Agreement Is Directed to an Exclusive Limited Territory Does not Justify the Inclusion Therein of Conditions Protecting Licensor Against Competition by Unpatented Devices.

The fact that the attempt to unlawfully expand the scope of the patent monopoly is by way of a non-exclusive patent license agreement rather than an exclusive license limited to a specified territory in no way modifies the applicability of the patent misuse doctrine, as the attempt to use the patent to overstep the precise bounds of the patentee's legal monopoly is repugnant to public policy irrespective of any peculiar justifying conditions which may be alleged to exist. *Mercoid* v. *Mid-Continent Investment Co.* (supra).

That this is true is clearly recognized in the *McCullough* v. *Kammerer* decision (supra) in which the doctrine of the *Lockwasher* case (supra) was expressly applied to an exclusive license for the whole United States. It is the attempt to expand the patent monopoly into fields not specifically granted to the patentee that is objectionable. This is a condition peculiar to the *patent* grant. Conditions which might be justified when applied to exclusive dealer franchises, exclusive covenants in connection with sales of businesses, or preservation of ownership in trade-marks

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or trade-names are not permitted with respect to patents which are affected by a peculiar public interest.

The restrictive provision in the license agreement in suit is not distinguishable from that of the *McCullough* case wherein the license agreement was an exclusive license for the whole U. S., by reason of the fact that the present agreement is an exclusive license for a limited territory. Were this not true, the patentee could conceivably divide the U. S. up into exclusive territories, thereby blanketing the entire country, and still be justified in depriving the licensee from dealing in any competing products regardless of the scope of the patent. It would seem that something like this is exactly what Plaintiff has done, for by Plaintiff's own admission in his brief filed in the case *Park-In Theatres, Inc.*, v. *Loew's* (supra) on appeal before the First Circuit, as evidenced by the affidavit of Hector M. Holmes, Esq., of Aug. 16, 1949 (R. p. 121-123) there were 13 outstanding license agreements containing precisely the same restriction against competing activities as occurs in paragraph 3 of Exhibit 3a of the license agreement in suit.

The *McCullough* case clearly indicates that an exclusive license for the U. S. containing such a restrictive provision is a violation of public policy and renders the contract and the patent unenforceable. It is submitted that the fundamental philosophy is the same in all of the cases regardless of the territorial limitation or whether it is an exclusive or non-exclusive license. Where the license is exclusive for the whole country, the licensor is certainly more at the mercy of the licensee than when there are a large number of exclusive licenses covering limited territory.

In connection with Plaintiff's argument that the doctrine of best efforts in connection with exclusive licenses, as supported in *Mechanical Ice Tray Corp.* v. *General Motors Corp.*, 144 F. 2d 720 (C.C.A. 2, 1944) and *Guardino Tank Process Corp.* v. *Olsson*, 89 N. Y. S. 2, 81 USPQ 318 (N. Y. S. Ct., 1949), justifies such a restrictive provision, it

is to be noted in the *Mechanical Ice-Tray* case that the Court expressly refused to find that a non-competing covenant could be implied.

If there is anything left of the implied doctrine of best efforts, the remedy must be had in the form of damages, and not as a condition imposed on the license agreement. In any event, where the implied doctrine of best efforts would tend to collide with public policy which strictly prohibits any attempt to expand the scope of the patent monopoly, the public policy must prevail.

CONCLUSIONS.

When finally analyzed, Petitioner's brief is nothing more than a re-argument of the merits which have twice been passed on, first by the District Court in two extensive hearings, and a second time by the Court of Appeals. As we have shown, there is no conflict in the Circuits.

It is respectfully submitted that this case presents no basis for review by the Supreme Court of the United States and Petitioner's Writ for Certiorari should be denied.

Respectfully submitted,

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